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SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER
DECEMBER 3, 2004 ISSUE

¶1. Summary. Each week, AMEmbassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:

- Gross Domestic Product Revised Upwards;
 - October Trade Deficit Widens;
 - October Money Supply Increased 15.7 Percent;
 - Business Confidence Increases to 23-Year Peak;
 - Gauteng's Development Strategy Faces Challenge of Uneven Economic Expansion;
 - Draft Black Economic Empowerment Targets for Tourism Industry Released; and
 - Internet Use in South Africa.
- End Summary.

GROSS DOMESTIC PRODUCT REVISED UPWARDS -----

¶2. On November 30, Stats SA released revised statistics for gross domestic product revealing mainly higher growth during the 2000-2004 time period. The annual real GDP growth rates from 2000 to 2003 are now 4.2, 2.7, 3.6 and 2.8 percent respectively compared to previous growth estimates of 3.5, 2.7, 3.6 and 1.9 percent. The average annual real GDP growth rate for the period 2000-2003 rose to 3 percent, compared to a pre-revision growth of 2.7 percent; while for the period 1997-2003, the average annual real growth rates increased from 2.4 percent to 2.7 percent. The nominal GDP estimate for 2000 is 3.8 percent higher than the previous estimate. The largest revision (3.9 percent) occurred in 2002 and the smallest (0.5 percent) was in 1998. Growth in 2004 has been steadily increasing, indicating that the impact of interest rate cuts outweighed the relatively weak global demand growth and the strong rand. Growth in the third quarter 2004 was 5.6 percent, compared to the first and second quarter's growth of 3.8 and 4.5 percent respectively. In the third quarter, growth of agriculture (relative size 2.6 percent of GDP), construction (relative size 2.5 percent), transport and communication (relative size 9.9 percent), manufacturing (relative size 16.4 percent), and finance and real estate (relative size 18.5 percent) sectors showed 14.7, 10.3, 6.7, 6.3, and 5.5 percent growth respectively, contributing the most to real GDP growth. Economic growth in the first nine months of 2004 was 3.4 percent higher than the corresponding period in 2003, indicating that 2004 growth will be higher than the pre-revision market expectations of 3 percent. The revised higher growth rates should contribute to higher business confidence and possible additional credit upgrades; however, many analysts question whether the South African Reserve Bank will lower interest rates at the December meeting in the face of increased demand. Source: Business Day, Business Report, December 1; Standard Bank, GDP Alert, Investec GDP Update, Stats SA Release P0441, November 30.

¶3. Comment. For the seventh time, Stats SA has revised the national income accounts by updating data sources, incorporating new methodologies, including new areas of economic activities, and changing the base period to adopt weights that more clearly reflect current economic conditions. Typically, rebasing occurs every five years, and Stats SA has shifted the base year to 2000 from 1995. Particularly important to this revision is data from new sources, such as the development of a new business register that is based on the South African Revenue Service's VAT database. The change in contribution to gross value added between the 1995 and 2000 benchmark years show that finance, real estate and business services increased from 18.1 percent to 20.1 percent, while general government's contribution decreased from 17.3 percent to 14.7 percent. The revisions also result in GDP per capita increasing from R17,700 (\$3,200 using 5.53 rands per dollar, the average in 1998) in 1998 to R27,100 (\$3,585 using 7.56 rands per dollar, the average in 2003) in 2003. End comment.

OCTOBER TRADE DEFICIT WIDENS

14. The trade deficit widened in October to R5.8 billion compared to September's deficit of R0.3 billion. The value of exports declined by 14.7 percent (m/m) to R23.8 billion in October from September's value of R 27.9 billion. The value of imports increased in October by 5 percent (m/m) to R29.6 billion from R28.2 billion in September. Mineral product exports increased, although declines in exports of wood and paper products, precious and semi-precious metals, and vehicles, aircraft and vessels explained the October export decline. Cumulative trade figures for the first 10 months of 2004 shows a deficit of R13.6 billion compared to last year's surplus of R15.5 billion. The trade deficit is expected to continue. Both the continued strength of the rand and slower global demand due to higher global oil prices negatively impact the South African export market. Domestic demand remains at high levels and import growth is expected to remain robust as foreign manufactured goods become more affordable. The current account will probably remain in deficit, although if oil prices recede and global demand accelerates, the deficit could narrow. Source: Business Day, December 1; Standard Bank, Foreign Trade Alert, November 30.

OCTOBER MONEY SUPPLY INCREASED 15.7 PERCENT

15. The October money supply increased 15.7 percent, up from 14.7 percent September growth, as increased credit demand funded purchases of houses and motor vehicles. Private sector credit demand, excluding the volatile investments and bills category, increased 15.1 percent last month, up from September's rise of 13.2 percent. Figures released by the South African Reserve Bank showed that mortgage credit increased by more than R8.5 billion last month to R391.7 billion, with mortgage advances rising 21.2 percent from a year ago. Leasing finance grew 22.9 percent (y/y) in October, while installment sales credit increased 17.2 percent. Given these increases in credit demand and the recent rand strength, the SARB will have to decide next week whether to reduce interest rates. Source: Business Day November 30.

BUSINESS CONFIDENCE INCREASES TO 23-YEAR PEAK

16. Business confidence jumped to a 23-year high this quarter, fuelled by low interest rates that have boosted economic growth and consumer spending. The latest confidence index measured by Rand Merchant Bank (RMB) and the University of Stellenbosch's Bureau for Economic Research increased nine index points to 88 this quarter, only three points shy of the record high reached in the third quarter of 1980. The survey shows a fairly broad-based improvement in confidence across all sectors, with sentiment among building contractors, retailers and motor vehicle dealers particularly strong. In these sectors, more than 90 percent of respondents were positive about business conditions. Although confidence among manufacturers increased, sentiment in this sector lagged behind the rest of the economy. Despite the lower confidence levels in manufacturing compared to other sectors, the survey showed that two-thirds of manufacturers were positive about prevailing business conditions. The strong level of business confidence in the economy was partly the result of increasing domestic demand, but also due to a stronger economy. The survey also showed an increase in net employment across all sectors this quarter. Source: Business Day, November 30.

GAUTENG'S DEVELOPMENT STRATEGY FACES CHALLENGE OF UNEVEN ECONOMIC EXPANSION

17. Gauteng's growth and development draft strategy traces the economic impacts of the province's shift towards the service industries combined with having the highest employment growth of all the provinces. Gauteng contributes 33 percent of South Africa's gross domestic product and continues to attract more job seekers than it can absorb, increasing the number of unemployed and poor. The province has shifted away from its dependence on minerals towards the services industries, which today account for 70 percent of Gauteng's employment. The shift towards high-value, high-skills jobs is a major contributor to unemployment and poverty among the job seekers who previously would be easily absorbed into the mining industry but now cannot find employment. In 2003, unemployment in Gauteng was 28.2 percent and the average monthly income was estimated at R2,000 (\$265, using 7.56 rands per dollar, the 2003 average). Representatives of government, business, labor and nongovernmental organizations met at a two-day summit in Johannesburg to

develop the growth and development strategy. The draft document points out the province's progress in service delivery and infrastructure improvements. Over the past 10 years, Gauteng has invested more than R1 billion in economic infrastructure to stimulate growth and sustainable job creation. The province has also extended the provision of social grants to more than 900,000 recipients. But unemployment and poverty persists, and the strategy suggests that the solution may lie elsewhere. Providing education, health care and grants contributes to building a skilled, healthy and nourished population that will need further opportunities to be integrated into the mainstream economy. The strategy prefers labor-absorbing industries such as tourism, financial services, business services, telecommunications, transport and logistic services. Gauteng premier Mbhazima Shilowa is scheduled to launch the final development strategy early next year. Source: November 30, Business Day.

DRAFT BLACK ECONOMIC EMPOWERMENT TARGETS FOR TOURISM INDUSTRY RELEASED

18. The Black Economic Empowerment (BEE) scorecard steering committee will give its draft empowerment targets for the tourism industry to the Minister of Environmental Affairs and Tourism, Marthinus van Schalkwyk on December 18. The committee, made up of industry, labor, and community representatives, recommended: (1) 26 percent black ownership by 2009 and 40 percent by 2014; (2) 70 percent black employees with 33 percent manager representation by 2009; and (3) 70 percent of the industry's skills training should be allocated to black employees in the first draft of targets released two months ago. In October, the committee presented its draft targets to various communities, generating response about the targets' impacts on small and medium enterprises and concerns about the relative weighting of ownership versus skills development. As a result, the human capital component has a larger weight than ownership targets during the first five years after the scorecard is adopted. Source: Business Report and Business Day, December 1.

INTERNET USE IN SOUTH AFRICA

19. The South African Advertising Research Foundation's Trends publication reveals that in 2003, 5.9 percent of South African adult population accessed the Internet within the past four weeks, compared to 4.6 percent in 2002, 4.5 percent in 2001 and 5.1 percent in 2000. In 2003, 2.8 percent used the Internet at home, while 2.3 percent accessed it at the office. Using internet banking services and email services increased in 2003, with 1.9 percent of adults accessing online banking services from 1.6 percent in 2002, and 4.5 percent using email services compared to 3.6 percent in 2002. Few South Africans purchase goods via the Internet with 0.4 percent buying online, compared to 0.3 percent in 2002. Source: Business Day, December 1.

FRAZER